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Shallcross, Cecil F.

Development

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DEVELOPMENT

AN ADDRESS

Delivered before the National Association of Insurance
Agents at Des Moines, Iowa, October 20th-22nd,
1920, on their twenty-fifth anniversary.



By

CECIL F. SHALLCROSS

United States Manager

North British & Mercantile Insurance Company, Ltd.

76 William Street, New York City

Development.

It is likely that few men in this gathering have travelled as widely among local agents throughout the country in the last twelve or eighteen months as have your good President and myself and when discussing possible subjects on which I might talk to you today we were in instant agreement that to draw attention again to opportunities of increasing premium income which lie neglected at the door of so many local agents might be helpful to some and for their sake would be borne patiently by those who are better informed and more aggressive in the development of business akin to regular old time fire insurance.

For the possible benefit of Agents who have newly engaged in the insurance business or to whom specific information might be useful I have prepared a memorandum which goes into some detail regarding certain side lines but will not inflict it fully on this audience.

At the outset let me say that we shall not be dealing with small and unimportant figures, for the premiums reported for the year 1919 to New York State on the so-called "side lines" reached the very substantial total of \$94,609,340 and if there be added similar premiums written by companies not admitted to the State of New York and therefore not reporting to it, the sum total must have been well over \$100,000,000, on which Agency commission must have approximated \$20,000,000. The premiums referred to were distributed among various classes as follows:

Motor Vehicles . . .	\$51,628,301
Tornado	16,508,477
Hail	19,424,509
Tourist Floaters . . .	560,075
Mail Package	2,444,697
Sprinkler Leakage . .	1,128,282
Riot & Explosion . .	2,825,913
Earthquake	79,085

In this list you will notice the omission of two other important kinds of business that are often termed "side lines," namely, Use and Occupancy insurance and Rental and

Leasehold insurance, for which there are no available premium figures, but which must reach very substantial sums.

Regarding these "side lines" as a whole it is my firm conviction that the surface has hardly been scratched and that they are susceptible of great development. All are of more or less recent origin and many property holders in these United States have not even heard that insurance against loss by these various casualties is in the market.

Now let us take up each of these classes separately and see something of what they consist.

AUTOMOBILE INSURANCE: It is said that there are in use today 6,400,000 pleasure automobiles and 700,000 commercial vehicles, not to mention the ubiquitous motor cycle. The number of motor vehicles that are insured is a difficult matter to estimate—many say only about a third of the total, and certainly here is an enormous field for you to till and it is increasing every day. Automobile insurance written by fire companies, as you well know, consists of indemnity for loss by fire, by theft, by collision and by damage to property of others, and policies cover the machine itself and also the equipment that amounts to a substantial value.

The increasing use of motor trucks as carriers of merchandise between cities as well as for regular trucking purposes has developed a large demand for insurance on contents of trucks and this is well worth your attention. Probably the best aids in soliciting Automobile insurance are pictures and clippings, particularly from your home papers, telling about burned cars, stolen cars and the substantial damages that are sustained by or done to other vehicles through collision. There is nothing quite so convincing as photographs and newspaper reports, especially if they are fresh and local. A serious automobile accident is the finest kind of solicitor if you go out among your clients without loss of time.

And when you have exhausted your clients' desires for the covers sold by fire companies there are the personal liability and accident policies issued by the casualty companies that offer such a fruitful field of endeavor, but any reference to which may be left to casualty underwriters.

AIRCRAFT: The chief difficulty the local agent is likely to encounter at present in handling this class of business is to induce his companies to think they can make any profit from it. European underwriters have had far more experience in the class than have we and so far the balance is all on the wrong side there as it has been here. When one gets up to a rate of 20% on the full value of the machine for six months' policy covering against all hazards and loses money a class looks rather hopeless.

But the art is undeveloped, new devices to minimize the risks of fire and of crash are constantly being put forward and the time is probably not far distant when the local agent will include aircraft insurance among his stock in trade. One enquiry recently was for insurance on dwellings against damage due to oil or materials dropping from passing aircraft or due to crashing of the machines.

MAIL PACKAGE INSURANCE is divided into two main groups—Parcel Post and Registered Mail. The former originated when our parcel post system was established some years ago and is intended to ensure the safe arrival of the property contained in each package mailed. In case of loss of any part of the contents or damage thereto from any cause, so long as it occurs while the package is actually in the custody of the Post Office, the company undertakes to reimburse the insured. There are certain exceptions all duly set forth in the policy but in general the foregoing are the conditions.

There are two ways in which this form of insurance is operated. One is to issue an open policy for an initial premium, all shipments protected thereunder being entered in a register showing the name of the addressee, the nature of the goods and the value thereof. Further premium payments, based on value of goods

shipped, are made at such periods and rates as may be called for in the policy.

The other and more general method is to sell the customer a policy or book of five cent coupons; when a package is mailed one coupon is detached for each \$25.00 worth of goods or fraction thereof and placed in the package, the stubs being filled out and showing the name of the addressee, the nature of the goods and their value.

Such insurance is salable to houses doing any considerable amount of business by mail and is particularly timely now when losses in the postal service are so frequent. The increased value of goods makes the temptation to pilfer greater and the shortage of man power in the Post Office Department has caused goods to be piled up in railroad terminals thus exposing them to theft as well as to damage by the elements, all of which results in more and larger losses than in normal times. It is easy to sell in competition with Government insurance because the details are handled quickly and simply in the office or store the insured instead of after tedious delay in the Post Office and because investigation and settlement of loss by a reputable insurance company is quick and satisfactory. This business has never been pushed as much as it might be and there are many merchants who do not even know that such a thing exists. I commend it to your closer attention.

REGISTERED MAIL differs from Parcel Post insurance in that packages must be sent by registered mail (as the name implies) and is chiefly used to insure against loss of bonds, coupons, bank notes, legal tenders, certificates of stock or other securities or valuables, such as jewelry. An open policy is issued covering against loss from whatever cause while in the custody of the Post Office, subject to certain exceptions and conditions, and upon making a shipment a declaration is filled out and mailed to the insurance company, this declaration showing the name of the addressee and the nature and value of the goods. Such insurance is commonly sold to banks, trust companies and other financial

institutions; also to private bankers, stock brokers and corporations which have occasion to forward securities that cannot readily be delivered by hand. The sums insured are often very heavy and the rates are low but accounts of this type frequently run into large premium figures and once established call for very little work on the part of the agent.

TOURIST FLOATERS are being sold more widely every year and although the volume of premium at the present time is not great, it will undoubtedly be increased as this kind of policy becomes better known. These floaters are intended to insure personal effects—clothing, jewelry, guns, golf clubs, etc., etc., in hotels, clubs, automobiles, trains, steamers, in camps or in transit wherever they may be outside of the regular domicile of the insured, and frequently are at a much lower rate than the specific rates applying to the places where the property is temporarily located. The insurance companies are able to make this relatively low rate because during much of the year there will be little or no liability. The cover is a broad one, not only insuring against loss by fire, but also from theft, wreck, etc. It is a small business which, however, it pays to handle and as it may often lead to larger business the local agent should not neglect it.

WINDSTORM & TORNADO INSURANCE: Those of you who live in the belt extending through the middle of the United States need no prompting regarding Windstorm and Tornado insurance, but I may venture to point out that windstorm damage is not confined to those localities where the cyclone is a more or less frequent visitor during certain seasons of the year and that even in the belt referred to there exist neglected opportunities for Use & Occupancy insurance against this casualty.

No section of the country is free from violent storms and from the damage which they so frequently cause and there are no precautions which man may take to prevent and little to mitigate these disasters. The rates are tempered to the probability of damage by windstorm and

therefore it is reasonable to think this class of insurance should be salable in every part of our land. Here again there is nothing so effective in soliciting as pictures of damage wrought by these storms. After a storm in any given locality business of this kind is generally obtainable from all the nearby points particularly if considerable damage has been done and this is the opportunity for the wide-awake agent.

HAIL INSURANCE: Hail storms like windstorms, while more prevalent in some sections than others, are widespread in their visitations and here again man is powerless. But if he cannot prevent he can at least indemnify and that is where the local agent comes in. As you all know hail insurance is sold chiefly to cover growing crops, for the damage to the average structure that hail is likely to cause is not great. The prudent farmer should be just as ready to carry such indemnity on his growing crops as he is to carry fire insurance on the same crops when harvested and in his barns.

CROP INSURANCE: There is another form of insurance coming into greater vogue, namely, that of insuring against loss of crops due to weather conditions or to insect pests or other causes, and this when better known and more firmly established will have even wider currency and be sold to a greater number of people than either Hail or Windstorm insurance.

RIOT & CIVIL COMMOTION: One of the most interesting forms of insurance developed by the great war is that which was known at the time as War Risk and Explosion Insurance, and the social and industrial disturbances which are an aftermath of the war have developed another class of indemnity not previously known widely, namely, Riot & Civil Commotion insurance. This is intended to reimburse the insured for loss which occurs through the acts of rioters or mobs or strikers and indemnifies him for physical loss of property damaged or destroyed.

The premiums already quoted (\$2,825.913) fall far short of the actual amount written in 1919, for

the statement blank called for War and Explosion figures which many companies interpreted literally and did not segregate their Riot & Civil Commotion premiums. It has been sold in large amounts at many of the important industrial centers and will be sold in much greater bulk as it becomes better known through the efforts of the aggressive local agent.

SPRINKLER LEAKAGE INSURANCE: The potentiality for damage in one small sprinkler head is tremendous because it is designed with ordinary pressure and circumstances to discharge about thirty gallons of water per minute. If one of these heads happens to open and not be discovered for an hour or two it can readily be imagined what loss it may cause to goods or machinery susceptible to water damage. In those sections where the winter weather is severe, frost is the great menace, while the fervent heat of summer has often been the source of trouble and damage. Then, too, when pipes run all through a building and tanks to supply them, a great many mechanical injuries may happen which can hardly be foreseen or prevented and cause leaks. All such losses are intended to be covered as also losses due to collapse of tanks through structural weakness, windstorm or what not, and this form of indemnity should be applied to every property having sprinkler protection.

EARTHQUAKE INSURANCE chiefly interests those who come from earthquake zones and no matter how much we may believe in prudence it is a little difficult to present arguments for carrying this form of indemnity in places that have never felt a tremor. Maps are obtainable showing the earth faults in the United States and I believe such faults are not confined to the Pacific Coast.

USE & OCCUPANCY INSURANCE: We now come to a most important class which touches almost every one of those reviewed, namely, Use & Occupancy Insurance. No doubt more has been said on this subject than on any other single kind of special insurance in recent

years but in many cases it still seems to be thought quite as much of a mystery as the Coinsurance Clause was when first brought into use.

As a matter of fact, the principle of Use & Occupancy insurance is very simple. We all recognize the fact that even though every dollar of physical loss to property may be reimbursed by the regular fire insurance the merchant or manufacturer or property owner will suffer an indirect loss because his premises and equipment are not available for carrying on his business. The manufacturer makes his money by producing goods and selling them. If he cannot produce it is useless to sell and therefore he must have the use of his factory or else his business will largely cease and with it his chance for profit.

It is at this point where the regular fire insurance drops the regular loss that Use & Occupancy picks it up and carries it until the premises are restored to a productive condition. The cover is a broad one and includes not only the net profits but also those items of expense commonly referred to as fixed or maintenance charges that cannot be escaped during a period of forced suspension. Among these are taxes and ground or other rent; interest on notes and bonds; salaries and directors' fees; royalties for machinery or processes which are payable whether operating or not; wages of foremen and such skilled help as could not be laid off; cost of lighting, heating, watchman and general maintenance consistent with a condition of idleness; and other fixed charges or special items of expense or indebtedness which cannot be eliminated during a suspension of operations.

We need not dwell very long on the technical side of such insurance, but there are a few features which might be referred to in passing. First, let me point out that this form of indemnity deals with the period of time the other side of the fire. It is the future, not the past, that is contemplated. The profits of the past are of value in determining the amount of insurance to be carried or the loss to be paid only as the future may be expected to reflect the past.

The earnings may be greater or they may be less and the true spirit of such insurance must take into account all the factors present at the time of the fire, and all of those which reasonable men can forecast for the period of suspension, in order to justify it as real indemnity, not merely a business gamble or a battle of wits between the insured and the adjuster.

For this reason our forms should be simple, clear and unambiguous with sufficient elasticity so that the conditions actually present may determine the loss rather than a set of conditions pre-conceived at the time of issuing the policy. Valued forms of Use & Occupancy are in most cases as unsound as valued policies on buildings.

Another feature is that Use & Occupancy insurance is intended to cover the loss resulting because the premises cannot be used for their normal purposes. In a manufacturing establishment this means the production of goods; in a store the sale of goods. For this reason it is not intended to cover loss of profits on goods already manufactured nor loss of profits on a stock of goods in a store, but rather the loss of profits because in the future beyond the fire goods cannot be produced or sold until the premises are sufficiently restored so that normal operations can be resumed.

Therefore, for full protection, a manufacturer should carry Use & Occupancy insurance on buildings, machinery and materials for use in manufacturing and in addition Profit Insurance on finished stock. In the case of a mercantile establishment Use & Occupancy on building and stock is usually sufficient cover, for the stock may almost always be replaced by the time the building is restored; yet there are two other factors of loss that might be covered by insurance, namely, loss of profits on goods sold but not delivered and loss of profits where the normal ratio of profit cannot be realized in disposing of the salvage remaining after the regular fire adjustment.

One of the most practical problems to be met in arranging such insurance with a client is to arrive at the amount to be carried. In those cases

where the profits and consequently the amount of indemnity required is on a fairly even keel year by year this is quite simple.

Generally speaking probably the best method is to take the profits of the past twelve months as a gauge and then examine as closely as possible into conditions with a view to determining whether these profits are likely to be greater or less in the ensuing twelve months. With this item fixed the maintenance charges should be reviewed and when determined it would often be a very good plan for the agent to file an accurate and detailed memorandum of them with his other records, for in case of loss such memoranda will show the true intent at the time the insurance was placed and tend to avoid dispute over what should be included. It would be like an inventory in a regular fire loss.

The field for insurance of this character is so large and so little covered as yet that it offers almost unlimited opportunities for business. Every factory is a potential customer for Use & Occupancy and Profit Insurance, for insurance on commissions of the selling agents and for any others having an interest in the output who would suffer financial loss if such output were prevented.

And when you have sold this kind of insurance against loss due to fire there still remains the same cover against loss due to sprinkler leakage, tornado and windstorm, riot and civil commotion. It only remains for the local agent to cultivate the ground in order to reap a golden harvest of commissions.

RENTS AND RENTAL VALUE INSURANCE: Another special kind of insurance that is growing in favor each year covers rents and rental values and bears much the same relation to leased property that Use & Occupancy does to productive industry. Being designed to cover loss of income while premises are not tenable because of fire it should be particularly salable to those whose income is largely derived from rented property. It is stated that the Johns Hopkins University of Baltimore was a very large holder of real estate in the district burned over in the conflagration of 1904 and that

because of the destruction of their property the income of the University during the year following the fire was a great deal less than usual—with all the inconveniences which that meant. Rents and Rental Value insurance may be carried whether the premises are occupied by the owner or by a tenant and it is needless to mention that just now this form of protection is of greater value than ever before, since rentals have risen to figures that would have been thought hardly possible five years ago.

LEASEHOLD INSURANCE: This leads us to another form of cover known as Leasehold insurance which, as commonly understood, is intended to cover the loss which cancellation of a valuable lease by fire would cause the lessee. A ten year lease executed in 1917 when rents were low is today a valuable asset.

It is no uncommon thing to find a store paying \$10,000 per annum under an old lease that would have to pay \$20,000 today for similar property if indeed it were obtainable at all. With seven years to run such a lease represents \$70,000 which the lessee stands to be out of pocket if fire cancels his holding. More indemnity covering such an insurable interest is being sold every day. Every lessee is a potential insured, often needing only to learn that such cover is obtainable to buy it.

These are the principal "side lines" or specialties that fire insurance agents have to sell. Very many more might be said regarding each one if time permitted for they are fascinating subjects and will well repay thorough study.

A great many other specialties are written that have not been segregated as to premiums, and perhaps none of them are of sufficient importance to warrant a separate department, but the local agent should keep them in stock on what might be termed his "hotton counter" in order that he may fully care for his customers' needs. For instance, there are all sorts of floaters, such as those covering pianos, clothing in process of manufacture, printers' goods, contractors' equipment and many others.

There is a large insurable value in vessels, boats and pleasure craft on inland waters that can be and to a great extent is covered by the fire insurance companies. Then there are the special forms for covering pictures, statuary and other works of art, valuable horses or cattle or other live stock, as well as the multiplicity of cases where some contingency liability needs to have a special form in order to be certain that it is properly and adequately covered.

The people of these United States are likely to be better insured in the future than they ever have been in the past. As values have increased during recent years and the chances for loss have become correspondingly greater these matters have been looked into and more and more insurance has been purchased. A great deal is still needed for adequate protection and herein lies the local agents' great opportunity for developing his regular fire business.

The profits of the past few years have been so great in many lines of business that those reaping them could not afford to take the chance of their loss through casualty that might be insured against, hence many classes of insurance have been carried to which little attention had been given previously and this has educated the public to the need and benefit of newer forms of insurance, creating a demand that will probably continue to increase for all kinds and classes of indemnity.

This leads me to say something that I hope you will not misunderstand or misinterpret.

Every agent should make it a point to be so familiar with the nature of the goods he has for sale that every one of the customary insurance problems that come to his clients may be answered intelligently and satisfactorily.

One reason why the agency and brokerage houses in large centers have been so successful in building up business is because they have fortified themselves with this intimate knowledge of all phases of insurance. When you consider that a man has an insurable interest whenever he can sustain loss of a tangible nature due to some casualty you can see what a wide field of

knowledge must be covered and it is for you gentlemen to become so well versed in all forms of insurance that your clients need never go elsewhere to find the best way to protect themselves against loss under all of the many contingencies that may arise.

There will never be any serious questions of the encroachments of outside agents or brokers if the local agent is equipped to give the same kind of service they give and you have this advantage as a rule that you are dealing with your neighbors whereas the outsider deals at long range.

To the extent, too, that the local agent is thoroughly well versed in all the aspects of the indemnity companies he represents can furnish, to that extent he is elevating the business he is engaged in and is the more fully discharging his duties as a good business man and a good citizen. And from a general aspect the observer cannot fail to be impressed with the opportunity there remains for placing the business more firmly in that position in the commercial world which its importance warrants.

The French have a proverb to the effect that he who excuses himself accuses himself and as one listens to the apologies sometimes made by local agents and company men for rates that experience abundantly shows are only reasonable and for forms that express only fair trading and good underwriting, one wonders if the apologists realize how much more difficult they are thus making the situation for themselves. The explanation probably is that in bygone days the officials of some prehistoric rating bureau must have fixed adequate rates upon unprotected dwellings and broom corn factories and to avoid the stocks or vicarious floggings by the Pilgrim Fathers or their lusty sons must have been forced to make public retraction thus establishing a shrinking demeanor the latest development of which has been the well nigh universal demand of Special Agents for automobiles so that they may leave town swiftly when any questions are raised regarding rates and commissions. One does not hear bankers apologizing for the rate of interest allowed on

deposits or for the rates charged on loans or for demanding that collateral shall be good. It is often claimed that insurance is a form of tax but our Federal and State Governments make no audible apology for the taxes they collect, nor do labor unions for raising wages and making their own rules, nor theatres and moving picture places for their prices. Mutual insurance companies do not apologize for their rates even though it can now be shown that stock companies' rates on sprinklered risks often cost the property owner less than the net cost of mutual insurance. Profiteers may have to be apologists but if local agents and company men would consider the skeletons of the thousands of defunct insurance companies which whiten the road down which the few successful companies have travelled in the last half century and take a more upstanding attitude towards the public and the politicians, they would find themselves beset by fewer troubles.

A most encouraging development in our business is the relative freedom from the noxious legislation of former years. There are still those, and they are not all in the insurance business, who feel that a new law must be enacted to smooth away every difficulty encountered in the construction of a policy or the payment of a loss, but thanks in no small measure to the efforts of the National Board of Fire Underwriters, to the cooperation of agents and to the better understanding by legislators and public officials thus engendered the mass of futile if not unfair legislation is less than formerly.

Mr. Theodore H. Price, of New York, told me recently that a long and painstaking examination showed that each State had on the average 20,000 laws—a total of 960,000 for the 48 states, and that in addition there were 60,000 Federal laws—a grand total of 1,020,000.

Of course, every well posted insurance agent of the older generation knows most of these laws by heart, but new automobile rates are promulgated so often nowadays that the newer agents and company officials have not time to memorize all the

1,020,000 and lapses from their tenets are excusable if ignorance of the law is ever excusable. You will perceive that unless the courts had established the well known principle that ignorance of the law does not excuse the lawyers and judges would long ago have been out of a job.

To every agent and the client of every agent who thinks that new legislation is necessary let me say that if he will examine the 1,150,000 he will find a law to suit his trouble and if he does not he will have been cured of his ailment by that time.

What we need is not more legislation but a solid front presented by companies and their agents against any proposed legislation which may unfairly prejudice the interests of either—which generally means of both, and if the legislators only knew it, almost invariably prejudices the best interests of the insuring public as well. There are insurance men who will fight tooth and nail to prevent a trolley pole going up opposite their front porches, but will watch legislation go through which threatens their very livelihood without voicing an audible protest.

One of the most interesting recent developments in the insurance world has been the movement to secure for agency companies doing business in this country and their representatives much of the marine business heretofore exported and the fact that the outlook for profit on this business is not good at the present time need not detract from the satisfaction all must feel that American marine insurance is entering a new era. Much can be learned from foreign

methods of underwriting marine business and the exchanges of views which will accrue must benefit all concerned.

Then there is the important development of the entry of a large group of American companies into the foreign field where, of course, they will receive a cordial welcome from companies already doing business there. The greater the territory over which a company can gather its premiums the less susceptible to violent fluctuations will be its average results, so that the entry of American companies into foreign fields should be a source of strength to them as it is to the foreign companies doing business in the United States; and as foreign travel broadens the point of view of the individual so it may be expected will underwriting in foreign countries bring new interests and new points of view to American underwriters whose reputation, courage, ingenuity and business acumen must ensure the success of this enterprise.

Looking backward to the earlier years of your Association's history and comparing with those days the closer relations now existing between agents and companies, of which so much has been well said, we can only bestow all honor on those men whose foresight, single-mindedness of purpose, tact and good judgment have brought local agents and companies so much closer together to the lasting benefit of all concerned, and this forward step must be regarded as the most valuable and most striking development in the insurance field that the last quarter of a century has seen.

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